PG (Even) Semester Examination, 2023

BUSINESS ADMINISTRATION

(2nd Semester)

Course No.: CP-208 (O)

(Financial Management)

Full Marks: 70

Pass Marks: 28

Time: 3 hours

The figures in the right margin indicate full marks for the question.

1. (a) Differentiate between financial management and financial accounting. 4

   (b) What are the functional areas of responsibility under the control of the financial manager? Give examples to illustrate the high level of interdependence between the decision areas of corporate finance. 5+5=10

Or

2. (a) How does agency problem manifest itself in the managerial decision making? 7

   (b) How can agency problem be rendered in a company? Explain. 7

3. (a) Differentiate between annuity due and deferred annuity. 4

   (b) Mr. Monohar decided to start saving for his retirement. Beginning on his twenty-first

birthday, Monohar plans to invest ₹2,000 each birthday into a savings investment earning a 7 percent compound annual rate of interest. He will continue the savings programme for a total of 10 years and then stop making payments. But his savings will continue to compound at 7 percent for 35 more years. Until he retires at 65. Ms Aloka also plans to invest ₹2,000 a year, on each birthday, at 7 percent, and will do so for a total of 35 years. However, she will not begin her contributions until her thirty first birthday. How much will Monohar and Aloka's savings programme be worth at the retirement age of 65? Who is better off financially at retirement, and by how much? 10

Or

4. (a) Discuss the contribution margin method of CVP analysis. 4

(b) You are required to calculate the break-even point from the following information :

Selling price per unit	₹20
Variable cost per unit	₹4
Fixed cost for the year	₹80,000
Estimated sales for the period	₹2,00,000

The number of units involved coincides with the volume of output.

Calculate the margin of safety and advice its impect if there is a fall of demand in business. 4+2+4=10

Ordinary shares : 10,00,000 ordinary shares or nominal value ₹25 per share. The market value of the shares is ₹49 per shares. A dividend of ₹7 per share has just been paid and dividends are expected to grow by 8 percent per year for the forceseable future.

Preference Share : 2,50,000 preference share of nominal value ₹50 per shares. The market value of the shares is ₹32 per share and the annual net dividend of 7.5 percent has just been paid.

Debentures : ₹1,00,000 of irredeemable debenture with a market price of ₹92 per ₹100 par. These debentures have a coupon rate of 10 percent and the annual interest payment has just been made.

Calculate the weightage average after tax cost of capital of Laxmi Limited. 10

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5. (a) Discuss the classification of working capital in terms of time. 4

(b) From the following information extracted from the books of a manufacturing compnay, compute the operating cycle in terms of days and amount of working capital needed by the firm :

Period covered	365 days
Average period of credit allowed by suppliers	20 days
	(₹ in '000)
Average total debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of average stock maintained :	
Raw material	320
Work-in-progress	350
Finished goods	260

6+2+2+10

6. (a) Write a brief note on NPV profile. 4

(b) Bharat Ayurveda is considering a new product line to supplement its range line. It is anticipated that the new product line will involve cash investment of ₹7,00,000 at time 0 and ₹10 lakh in year 1. After tax cash inflows of ₹2,50,000 are expected in year 2, ₹3,00,000 in year 3, ₹3,50,000 in year 4 and

₹4,00,000 each year thereafter through year 10. Though the product line might be viable after year 10, the company prefers to be conservative at that time.

(i) If the required rate of return is 15 percent, what is the net present value of the project? Is it acceptable? 2.5

(ii) What is the internal rate of return? 3

(iii) What would be case if the required rate of return was 10 percent. 2

(iv) What is the project's payback period? 2.5

Or

7. (a) With a dividend discount model, how do you estimate the cost of equity capital? 4

(b) A company pays a dividend of ₹1 per share and has share price of ₹20.

(i) If this dividend was expected to grow at a 12 percent rate for ever, what is the firm's expected, or required, return on equity using a dividend discount model approach? 4

(ii) Instead of the situation in part (i), suppose that the dividend was expected to grow at a 20 percent rate for 5 years and at 10 percent per year thereafter. Now what is the firm's expected, or required, return on equity? 6

8. (a) Briefly explain the traditional view of capital structure. 4

(b) Laxmi Limited, a company which pays corporation tax at 30 percent, has the following capital structure :